

K14.2

EB-2007-0905

AMPCO CROSS-EXAMINATION

DOCUMENT BRIEF

**OPG PANEL #11:
VARIANCE/DEFERRAL ACCOUNTS**

Ontario Energy Board	
FILE No.	<u>EB-2007-0905</u>
EXHIBIT No.	<u>K14.2</u>
DATE	<u>June/08</u>
08/99	

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AMPCO EXHIBIT

	OPG VARIANCE & DEFERRAL ACCOUNTS	AUTHORITY	SHARING MECHANISM PROPOSED BY OPG	OEB DISCRETION TO EVALUATE	BALANCES TO BE CLEARED in EB-2007-0905
	HYDROELECTRIC				
1	Segregated Mode & Water Transactions Net Revenue Variance Account (J1/1/1 p.1, line 13, p.5, line 4)	OPG generated account (L3/98)	Yes	Subject to prudence review by OEB	
2	Interim Variance Account (J1/1/1 p.1, line 17) <i>S.1 = 1VA</i>		No		
3	Interim Variance Accounts – Sub Accounts I) segregated mode of operations and II) water transaction net revenues) (J1/1/1 p.1, line 19, p. 5, line 9 & 27)	<i>OPG acct. 65N.</i>	No		
4	Hydroelectric – differences in electricity production –forecast to actual	O. Reg 53/05 5.(1) (a)	No		
5	Hydroelectric – Ancillary Service Net Revenue Sub Account (J1/1/1 p.4 line 22)	O. Reg 53/05 5.(1) (c)	No		
6	Hydroelectric – Acts of God	O. Reg 53/05 5.(1) (d)	No		
7	Hydroelectric – Costs of TX outages and other	O. Reg. 53/05 5.(1) (e)	No		
8	Interest on Hydroelectric Variance Accounts (J1/1/1 p.6, line 15)	O. Reg 53/05 5.(3)	No		

*add
Hydroelectric
Cost Variance
accs*

AMPCO EXHIBIT

	NEW ACCOUNT	AUTHORITY	SHARING MECHANISM PROPOSED BY OPG	OEB DISCRETION TO EVALUATE	BALANCES TO BE CLEARED
	NUCLEAR				
9	Pickering A Return to Service (J1/1/1 p.1, line 21, p. 7, line 23)	O. Reg 53/05 5.(4)	No		
10	Nuclear Liability (J1/1/1 p. 1, line 21)	O. Reg 53/05 5.2	No		
11	Nuclear Development (J1/1/1 p.1, line 22)	O. Reg 53/05 5.3	No		
12	Capacity Refurbishment Variance Account (J1/1/1 p. 1, line 22)	"	No		
13	Interim Variance Account (J1/1/1 p. 1, line 22, p.17, line 31)	O. Reg 53/05	No		
14	IVA Sub Accounts for I) Transmission Restrictions and Limitations and II) Ancillary Services (J1/1/1 p. 1, line 23)	"	No		
15	Interest on Nuclear Variance Account Balances (J1/1/1 p. 19, line 17)	O. Reg 53/05 5.4	No		
16	Pickering A Return to Service Project Costs	O. Reg. 53/05	No		
17	Unit 1 Return to Service Costs (J1/1/1 p.8, line 22)	O. Reg. 53/05	No		
18	Assessment Costs for Units 2 &3 (J1/1/1 p.9, line 18)	O. Reg. 53/05	No		
19	General Project Completion and Demobilization Costs (J1/1/1 p. 10, line 9)	O. Reg. 53/05	No		
20	Pickering A Return to Service Amortization (J1/1/1 p. 10, line 19)	O. Reg. 53/05	No		

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AMPCO EXHIBIT

	NEW ACCOUNT	AUTHORITY	SHARING MECHANISM PROPOSED BY OPG	OEB DISCRETION TO EVALUATE	BALANCES TO BE CLEARED
	NUCLEAR				
21	Interest on PARTS Deferral Account Balances, p. 11, line 6	O. Reg. 53/05	No		
22	Nuclear Liability Deferral Account p. 11, line 14	O. Reg. 53/05	No		
23	Nuclear Development Deferral Account, Transition, p. 14 line 18	O. Reg. 53/05	No	OPG'S POSITION: OEB MUST ACCEPT VALUES	
24	Capacity Refurbishment Variance Account, p. 16, line 8	O. Reg. 53/05	No	OPG'S POSITION: OEB MUST ACCEPT VALUES	
25	Interest p. 17, line 19	O. Reg. 53/05	No	OPG'S POSITION: OEB MUST ACCEPT VALUES	
26	Nuclear Unforeseen Changes	O. Reg. 53/05 5(1)(b)	No	OPG'S POSITION: OEB MUST ACCEPT VALUES	

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CCC Interrogatory #98

Ref: Ex. J1-T1-S1, page 1

Issue Number:

Issue:

Interrogatory

OPG has recorded amounts in a variance account related to its proposed sharing of a portion of the profits from power sales to Quebec and water transactions with the NY Power Authority. When did OPG first begin recording the amounts in this account? When did OPG obtain approval for the establishment of the account?

Response

OPG started to record amounts in this variance account in 2005.

The treatment of segregated mode of operations (i.e., power sales to Quebec) and water transactions are not prescribed in O. Reg. 53/05; OPG did not obtain approval to establish this variance account. However, OPG determined that it was appropriate to set up this account to share a portion of the associated net revenues as described in Ex. J1-T1-S1, Section 3.2 and Ex. J1-T3-S1, Section 4.2.

O. Reg. 53/05

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- (ii) the day before the effective date of the Board's first order in respect of Ontario Power Generation Inc.; and
- (b) for the nuclear generation facilities prescribed in paragraphs 3, 4 and 5 of section 2, \$49.50 per megawatt hour with respect to output that is generated during the period from April 1, 2005 to the later of,
- (i) March 31, 2008, and
- (ii) the day before the effective date of the Board's first order in respect of Ontario Power Generation Inc. O. Reg. 53/05, s. 4 (1).

(2) Despite subsection (1), for the purpose of clause 78.1 (2) (a) of the Act, if the total combined output of the hydroelectric generation facilities prescribed under paragraphs 1 and 2 of section 2 exceeds 1,900 megawatt hours in any hour, the total amount of the payment that the IESO is required to make with respect to the units at those generation facilities is, for that hour, the sum of the following amounts:

1. The total amount determined for those facilities under clause (1) (a), for the first 1,900 megawatt hours of output.
2. The product obtained by multiplying the market price determined under the market rules by the number of megawatt hours of output in excess of 1,900 megawatt hours. O. Reg. 53/05, s. 4 (2).

(2.1) The total amount of the payment under subsection (2) shall be allocated to the hydroelectric generation facilities prescribed under paragraphs 1 and 2 of section 2 on a proportionate basis equal to each facility's percentage share of the total combined output in that hour for those facilities. O. Reg. 269/05, s. 1.

(2.2) Subsection (2.1) applies in respect of amounts payable on and after April 1, 2005. O. Reg. 269/05, s. 1.

(3) For the purpose of this section, the output of a generation facility shall be measured at the facility's delivery points, as determined in accordance with the market rules. O. Reg. 53/05, s. 4 (3).

Deferral and variance accounts

5. (1) Ontario Power Generation Inc. shall establish a variance account in connection with section 78.1 of the Act that records capital and non-capital costs incurred and revenues earned or foregone on or after April 1, 2005 due to deviations from the forecasts as set out in the document titled "Forecast Information (as of Q3/2004) for Facilities Prescribed under Ontario Regulation 53/05" posted and available on the Ontario Energy Board website, that are associated with,

- (a) differences in hydroelectric electricity production due to differences between forecast and actual water conditions;
- (b) unforeseen changes to nuclear regulatory requirements or unforeseen technological changes which directly affect the nuclear generation facilities, excluding revenue requirement impacts described in subsections 5.1 (1) and 5.2 (1);
- (c) changes to revenues for ancillary services from the generation facilities prescribed under section 2;
- (d) acts of God, including severe weather events; and
- (e) transmission outages and transmission restrictions that are not otherwise compensated for through congestion management settlement credits under the market rules. O. Reg. 23/07, s. 3.

(2) The calculation of revenues earned or foregone due to changes in electricity production associated with clauses (1) (a), (b), (d) and (e) shall be based on the following prices:

1. \$33.00 per megawatt hour from hydroelectric generation facilities prescribed in paragraphs 1 and 2 of section 2.
2. \$49.50 per megawatt hour from nuclear generation facilities prescribed in paragraphs 3, 4 and 5 of section 2. O. Reg. 23/07, s. 3.

(3) Ontario Power Generation Inc. shall record simple interest on the monthly opening balance of the account at an annual rate of 6 per cent applied to the monthly opening balance in the account, compounded annually. O. Reg. 23/07, s. 3.

(4) Ontario Power Generation Inc. shall establish a deferral account in connection with section 78.1 of the Act that records non-capital costs incurred on or after January 1, 2005 that are associated with the planned return to service of all units at the Pickering A Nuclear Generating Station, including those units which the board of directors of Ontario Power Generation Inc. has determined should be placed in safe storage. O. Reg. 23/07, s. 3.

(5) For the purposes of subsection (4), the non-capital costs include, but are not restricted to,

- (a) construction costs, assessment costs, pre-engineering costs, project completion costs and demobilization costs; and
- (b) interest costs, recorded as simple interest on the monthly opening balance of the account at an annual rate of 6 per cent applied to the monthly opening balance in the account, compounded annually. O. Reg. 23/07, s. 3.

Nuclear liability deferral account, transition

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Board Staff Interrogatory #101

Ref: Ex. J1-T1-S1, Section 4.4.2, page 17, lines 2 - 9

Issue Number: 9.3

Issue: Were the revenues recorded in the forecast variance account earned or foregone; were the costs prudently incurred; and were the revenues and costs accurately recorded as required by section 6(2)1?

Interrogatory

In the transmission outages and restrictions sub-account, OPG calculates the value of lost production on the basis of an hourly capability factor for the affected units. Is this an actual capability factor or a theoretical 100% factor?

Response

The calculation is based on a theoretical 100 percent factor equivalent to the maximum design rating for each of the units.

Board Staff Interrogatory #112

Ref: Ex. J1-T3-S1, Section 3.1; page 3, lines 9 - 15

Issue Number: 9.7

Issue: What deferral and variance accounts, other than those mandated by Reg. 53/05, should be established for 2008 and 2009?

Interrogatory

OPG proposes (J1/T3/S1 pages 1-2) that the interest rate applicable to all deferral and variance account balances (with the exception of the Pickering A Return to Service Deferral Account OPG for which it proposes to use the weighted average cost of capital) shall be the forecast interest rate applied to OPG's other long-term debt provision. On November 28, 2006, the Board approved a methodology to prescribe an interest rate for the deferral and variance accounts of natural gas and electricity rate-regulated companies (EB-2006-0117). The prescribed interest rate, which is updated quarterly, is equal to the three-month bankers' acceptance rate, as published on the Bank of Canada's website, plus a fixed spread of 25 basis points, effective May 1, 2006 for electricity LDCs.

Effective on the date of the Board's first payment order for OPG, will the company adopt the implementation the Board-prescribed interest rate for existing deferral/variance created by O. Reg. 53/05 (or amended regulations) and any new account(s) approved by the Board? If not, please explain why not?

Response

OPG has proposed interest rates for its deferral/variance accounts that are more reflective of the costs that it will face than the generic interest rate adopted for electricity and gas distribution companies.

OPG's proposal to use a forecast long-term debt rate eliminates forecast bias, keeps OPG whole, is consistent with the longer recovery cycle associated with a test period in excess of one year, and is the easiest for OPG to administer. For deferral/variance accounts that reflect activity that is fundamentally capital in nature, the appropriate carrying charge, in OPG's view, is the weighted average cost of capital in the approved capital structure.

OPG is mindful of the regulatory burden directly associated with regulating the large number of LDCs in the province and the benefits associated with not having to approve a utility-specific capital structure for each LDC. As a result, OPG supported the position in EB-2006-0117 that generic solutions should apply where appropriate, but it believes that a generic solution is not appropriate in this application.

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Board Staff Interrogatory #113

Ref: Ex. J, Section 3.1; page 3, lines 9 - 15

Issue Number: 9.7

Issue: What deferral and variance accounts, other than those mandated by Reg. 53/05, should be established for 2008 and 2009?

Interrogatory

On November 28, 2006, the Board approved a methodology to prescribe an interest rate for construction work in progress (CWIP) for natural gas and electricity rate-regulated companies (EB-2006-0117). The prescribed interest rate for CWIP is equal to the DEX Mid Term Corporate Bond Index Yield.

Effective on the date of the Board's first payment order for OPG, will the company adopt implementation of the Board-prescribed interest rate for CWIP? If not, please explain why not?

Response

OPG does not believe that the generic CWIP methodology is appropriate for its projects. A better approach would be to use a rate that more accurately reflects the costs that OPG will face. Many of OPG's current and potential future projects will involve large capital expenditures over many years making them more akin to rate base than to the shorter-term projects covered by the generic methodology.

An explanation of why OPG believes the use of its specific interest rate forecast is superior to a generic approach is provided in L-1-112.

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